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4. Britain outlines new plan for approach to Egypt:

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As part of its "package proposal" for the settlement of the Anglo-Egyptian dispute, Britain proposes to resume supplying military equipment to Egypt by stages. In order to reap the greatest advantage, Britain will not release any further supplies until Anglo-Egyptian negotiations are under way and will withhold the most important items until agreement has been reached.

Ambassador Caffery in Cairo strongly advises against American acceptance of the proposal. Instead, he recommends that the United States immediately implement a program of interim military and economic assistance which the State Department is presently preparing.

Comment: The current impasse in the Sudan discussions plus a likely strong Egyptian aversion to bargaining with Britain on arms may result in a complete Anglo-Egyptian impasse which would play into the hands of the extremists.

Reports from Egypt indicate growing Moslem Brotherhood impatience with lack of progress on the Suez issue and warn of possible outbreaks of terrorism.

5. Britain, France and Italy seen hoping for eventual collapse of Libya:

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US Minister Villard in Tripoli concludes, after reviewing Libya's first year of independence, that Britain, France and Italy are waiting hopefully, "like vultures," to claim a dismembered Libyan "carcass." He maintains that the three powers are more interested in the eventual division of Libya's three provinces - Cyrenaica, the Fezzan and Tripolitania - among themselves than in the promotion of a strong centralized government.

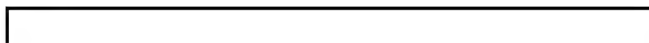
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This division of Libya may not happen in the immediate future, the Minister says, but long range planning must consider the possibility that Libya may cease to exist as a sovereign state.

Comment: To this picture of Libya's future must be added the prospect that, even if it survives, Libya's growing alignment with intemperate Arab nationalism entails problems for the West. Current American, British and French negotiations on military bases are already stalemated by a Libyan desire to re-examine its foreign commitments.

WESTERN EUROPE

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7. Comment on possibility of devaluation of French franc:

The continued sharp deterioration of France's account with the European Payments Union creates the possibility that the next government will immediately devalue the franc. The official exchange rate of the franc has long been considered further out of line than that of any other West European currency.

Since the franc probably must be devalued eventually, any new French administration may do so immediately in order to avoid incurring the sole blame for such a step. The next government may also prefer to act before a further decline in French foreign exchange holdings would make it even more difficult to stabilize the franc at the newly determined rate.

France's deficit with the European Payments Union has been averaging nearly \$40,000,000 a month for the past year and a half, and commencing with November 1952 has necessitated settlements entirely in gold. Despite the poor prospects for any substantial reduction of the monthly deficit, Premier Pinay rejected a devaluation of the franc in favor of measures which stressed creation of a "climate of confidence." His position was strengthened by scheduled American aid, which will permit France to apply the bulk of its dollar receipts from other sources to settlement of its Payments Union deficit, at least through February.